

RD AN No. 3552 (1930-C)
May 30, 2000

TO: State Directors
Rural Development

ATTENTION: Program Directors, MFH Program Directors or Coordinators

FROM: James C. Kearney (Signed by James C. Kearney)
Administrator
Rural Housing Service

SUBJECT: Program Related Issues for MFIS2 Training

PURPOSE/INTENDED OUTCOME:

The implementation of the revised Multi-Family Housing Information System (MFIS2) gives the Agency a new automated system to better manage the Multi-Family Housing (MFH) portfolio. The Agency now has a unique opportunity to update and improve our internal management processes to take advantage of our expanded automation capabilities. Our goal is to assure that the MFH portfolio continues to deliver decent, safe and sanitary affordable housing well into the future. This Administrative Notice (AN) provides an overview of MFH program administration changes that you are to implement within your jurisdiction as your offices convert to MFIS2.

COMPARISON WITH PREVIOUS AN:

This AN contains references to AN 3511 (1930-C), dated January 20, 2000, and AN 3515 (1930-C), dated February 4, 2000.

IMPLEMENTATION RESPONSIBILITIES:

When State and Servicing Offices convert to MFIS2, the following changes are to be implemented within their jurisdiction:

EXPIRATION DATE: December 31, 2000

FILING INSTRUCTIONS
Preceding RD
Instruction 1930-C

A. Changes to the oversight and access of MFH program information. MFIS2 provides direct access by all MFH staff to scheduling, tracking, monitoring, supervision and servicing information maintained by the Servicing Office. The improved access allows the Agency to provide better management and oversight of the portfolio and to eliminate several time consuming information collection efforts. For example, the paper based Form RD 1930-10 review process will be replaced by MFIS2 monitoring routines. The annual collection of tenant information will now be done without field office intervention. **Attachment A** provides more information on how MFIS2 will be used to improve program oversight. **Attachment A-1** documents Agency review responsibilities for MFIS2 reports.

B. An improved MFH classification process. The increased capacity of MFIS2 to provide detailed servicing information allows the Agency to improve our classification system and focus on projects which Servicing Offices consider truly at risk. **Attachment B** provides a guide to the new classification system. **Attachment B-1** provides a reference listing of supervisory activities, servicing efforts and findings.

C. Changes to supervisory visit requirements. As part of the ongoing regulatory revision process, the supervisory visit forms were improved to allow the Agency to review borrower compliance with specific performance standards. The first form to be made available for use is the RHS MFH Physical Inspection Report, which will replace forms currently used by most Servicing Offices. Data from the form will be entered into MFIS2 and used in the monitoring and classification process. Also recommended by the regulatory revision process, an annual review of a project's physical status will now be implemented nationwide. **Attachment C** will introduce the new form and discuss the new annual visit. Also attached is a copy of the RHS MFH Physical Inspection Report.

D. Change to the project budget approval process. MFIS2 provides for a much stronger analytical process. Budget data can be analyzed on-line or through reports. A predetermined analysis process will be available to highlight key financial issues. In addition, Form RD 1930-7 will be revised with the MFIS2 implementation to include a new "part" to record planned capital expenditures. **Attachment D** provides an explanation of its use, **Attachment D-1** documents the issues analyzed by MFIS2, and **Attachment D-2** describes the budget "norm" calculation process.

E. Reserve account issues. To assure a standard approach to tracking the use of reserve account funds, **Attachment E** reviews reserve account issues relevant to the implementation of MFIS2. MFIS2 also has the capacity to record the results of a capital needs assessment which is permitted in accordance with RD Instruction 1930-C.

F. Change to review of "actuals." MFIS2 will prepare an analysis of information submitted by the borrower when they provide audited actual budget figures after the end of each fiscal year. **Attachment F** discusses the impact of the analysis and **Attachment F-1** documents the issues analyzed by MFIS2.

Attachments

Changes to the Oversight and Access of MFH Program Information

Program Changes:

1. MFIS2 is to be used as the only MFH program tracking system.
2. The review and analysis of MFIS2 information replaces the Form RD 1930-10 annual paper based review process.
3. Program managers and reviewers will use MFIS2 as a primary source of information to provide oversight of Servicing Office actions.
4. The Agency will use MFIS2 to collect tenant and project information and provide it to outside parties in support of the MFH program.

Discussion:

1. MFIS2 system is to be used as the tracking tool for all MFH supervisory and servicing actions. State and Servicing Office staff should discontinue using ad-hoc tracking systems that duplicate processes contained within MFIS2. To understand what MFIS2 tracks, the following is a quick reference to key MFIS2 terminology:
 - ***Supervisory activities*** are actions the Agency takes to supervise borrowers, projects, and tenants. They include ***inspections***, where the Agency physically inspects the project, such as during a supervisory visit or ***reviews*** where the Agency examines a document or budget submitted by a borrower.
 - ***Servicing efforts*** are actions to correct problems or address ownership issues. They include ***actions*** taken by the Agency, such as sending a servicing letter to correct a problem, or ***requests*** by the borrower and processed by the Agency, such as a borrower request for a transfer.
 - ***Financial Instruments*** are documents provided by borrowers with financial information required by the Agency to monitor the financial status of MFH projects. These include Forms RD 1930-7 and 1930-8.
 - ***Tracked accounts*** are borrower held project financial accounts monitored by the Agency, such as the reserve account.
 - ***Findings*** are instances where the Agency “finds” that the borrower is not operating in accordance with regulations, laws, or loan agreements. ***Violations*** are findings elevated by their severity or the Agency’s inability to resolve them thorough routine contacts with the borrower. Attachment B contains more information on findings and violations and how they relate to a project’s classification.
 - ***Tracking steps*** are milestones used to track the progress in performing supervisory activities or servicing efforts.

- 2 Using the tracking, analytical, and comment capabilities of MFIS2, State and Servicing Offices can review and analyze all the information currently contained on Form RD 1930-10. When MFIS2 capabilities are used, the requirements of RD Instruction 1930-C, regarding the use of Form RD 1930-10 will be met. This AN establishes the review, analysis, and comment process to be used, thus eliminating the need for the form.
- 3 Program and staff managers in the National, State, and Servicing Office are to use MFIS2 reports to determine where problem areas are located, if trends are isolated or widespread, the location of Agency offices that could use help, and the training needs of the Agency or borrowers. Reports are available on MFTS tenant information, the tracking of supervisory and servicing actions, the classification of the portfolio, and project financial information. A complete listing of MFIS2 reports will be available in the MFIS2 training manual.
- 4 MFIS2 improves the Agency's reporting capabilities because of the direct access to program data from all administrative levels of the Agency. The Agency now has a faster and less burdensome method for providing information to Congress and outside parties on the status of our portfolio, its strengths and weaknesses, and other information relative to supporting the future viability of the MFH program.

Procedural Reference:

1. RD Instruction 1930-C, Section 1930.117 (a) (12) requires each State to gather, maintain, analyze, and distribute a database of actual MFH operation and maintenance expenses. When implemented in each State, MFIS2 will be used as the database for maintaining, and analyzing project financial information as well as recording and tracking project supervisory activity and servicing efforts.
2. RD Instruction 1930-C, Section 1930.123 (g)(1) requires that State Directors review all submissions of Form RD 1930-10 by the Servicing Office to record summary results of the annual project status review. When MFIS2 is implemented in each State, the paper based annual review on Form RD 1930-10 will be replaced with an automated process using information available on MFIS2. Relevant servicing information will be reviewed using MFIS2 on-line and reporting capabilities.
3. RD Instruction 1930-C, Section 1930.117 (c)(1) requires State staff to continuously monitor supervisory and account servicing activities and borrower status to assure that each project is receiving timely and effective supervision. When implemented in each State, MFIS2 will be used to accomplish monitoring responsibilities.
4. RD Instruction 1901-E, Section 1901.202(g) requires the Rural Development to maintain racial and ethnic data showing the extent to which members of minority groups are beneficiaries of Rural Development assisted programs. MTFS will continue to be used for this responsibility, but now reports can be run using tenant data centralized on the server in St.

Louis. In addition, RD Instruction 2018-F, Section 2018.257 states that to speed processing, requests for information should be made to the appropriate County, District or State Office

where the records are likely to be located. Beginning with the implementation of MFIS2, all offices will be able to access the same information, therefore allowing each office to generate reports as needed.

Implementation Directions:

1. State and Servicing Offices are to use MFIS2 as the primary tracking and monitoring tool for the MFH program. If there is a local system that can not be replaced upon implementation of MFIS2, the Multi-Family Housing Portfolio Management Division (MHPMD) is to be notified.
2. At least annually, at the end of the borrower's fiscal year, State Offices are to print out and review the project classification report. For projects classified with a D or C, State Offices are to review the project's supervisory and servicing status on MFIS2, using either reporting or on-line capabilities to determine the nature of the finding, violation, or default, and the extent of Servicing Office efforts to resolve the problem. State Offices are then to coordinate with the Servicing Office to assure that an effective servicing strategy is in place to correct the problem. The State Office should retain sufficient paper documentation of this annual review process to assure that future reviewers will be able to determine that the appropriate annual review and coordination efforts were performed.
3. Attachment A-1 is a list of reports that should be reviewed in each Servicing and State as well as the National Office as part of an effective monitoring routine. Documentation of the report reviews conducted in each Servicing and State Office should be retained in each office's operational files. The reviewer's signature, any comments, and date reviewed should be entered on the printout to document the review had been completed. Actual monitoring practices may be modified to fit the needs of each office.
4. National Office requests for information regarding the status of the MFH portfolio will now be limited to information that is not available from MFIS2 or from data on the new centralized MTFS database.

MFIS2 Reports and Review Responsibilities

Servicing Office review responsibilities listed below are to be completed by the RDM or Specialists responsible for MFH in each Servicing Office.

MTFS Reports

Project Worksheet. Review quarterly to identify trends for zero income tenants, vacancy problems, unused RA and under-utilization of units.

Vacancy Report. Review monthly to identify trends.

Quick Check. Run and send to a borrower for at least initial Industry Interface submission to assure consistency with MTFS and borrower tenant data.

MFIS Supervisory Activity Tracking Reports

SAT 1000A Due/Scheduled/Follow-up Activities

Review monthly to schedule follow-up and assure work is properly addressed.

SAT1000B Due and Follow-up Activities

Review monthly to plan work.

SAT1000C Follow-up Activities (AC1017 - Financing Statements)

Review monthly to assure that renewals are performed.

SAT3000B Past Due Reviews

Review monthly to promptly address past due items.

MFIS Findings Reports

SAT2000E Servicing Effort Associated Findings – All Servicing Efforts

Review monthly to determine if adequate servicing is being performed.

SAT3000A Project Findings with Supervisory Activities – Open Findings without Servicing Efforts

Review monthly to assure open findings are being addressed.

SAT4000B Summary of Open Project Findings – County Code

Run quarterly and review patterns and trends in open findings, violations and defaults.

SAT4000A Summary of Open Project Findings – State

Run yearly and use data to plan for compliance reviews or supervisory visits.

MFIS Financial Reports

PFI1000E Budget Norms

Review at the time of proposed and year-end budgets to review typical operating costs.

PFI4000A Project Classification

Review monthly to assure proper classification and use of servicing resources.

PFI5000B Project Reserve Account Balance Summary

Review monthly to monitor reserve balances.

PFI7000B Project Initial Operating Capital Summary

Review annually to monitor withdrawal of the Initial Operating Capital.

MFIS2 Reports and Review Responsibilities (Continued)

State Office review responsibilities listed below are to be completed by the Program Manager or Specialists responsible for MFH in each State Office. In addition, **National Office** Program Managers and Specialists will review these reports to monitor the servicing status of the MFH portfolio.

MTFS Reports

Project Worksheet. Review annually an informal sampling to identify trends for zero income tenants, vacancy problems, unused RA and under-utilization of units.

Vacancy Report. Review quarterly to identify trends.

MFIS Supervisory Activity Tracking Reports

SAT3000B Past Due Reviews

Review quarterly to promptly address past due items.

MFIS Findings Reports

SAT2000E Servicing Effort Associated Findings – All Servicing Efforts

Review quarterly to determine if adequate servicing is being performed.

SAT3000A Project Findings with Supervisory Activities – Open Findings without Servicing Efforts

Review quarterly to assure open findings are being addressed.

SAT4000A Summary of Open Project Findings – State

Run annually and use data to plan for compliance reviews or supervisory visits.

MFIS Financial Reports

PFI1000E Budget Norms

Review at the time of proposed and year-end budgets to review typical operating costs.

PFI4000A Project Classification

Review quarterly to assure proper classification and use of servicing resources.

PFI5000B Project Reserve Account Balance Summary

Review annually to monitor reserve balances.

PFI7000B Project Initial Operating Capital Summary

Review annually to monitor withdrawal of the Initial Operating Capital.

Improved Classification Process

Program Changes:

1. MFIS2 establishes a new system for classifying the status of MFH projects.
2. Project classification will be based on findings, violations, and defaults. Reporting of findings and violations will be based on a Servicing Office's review, analysis, and input.
3. All administrative levels of the Agency will be able to review a project's classification and servicing record on-line or using MFIS2 reports. This will eliminate monthly and quarterly classification paper reporting responsibilities.

Discussion:

1. MFIS2 project classification will be based on the following:

- D Default
- C Finding or violation identified but not resolved
- B Finding or violation being resolved with a workout plan
- A No finding or violation identified

More specifically, MFIS2 will determine classification by:

- D Monetary default – Project is delinquent more than 60 days
Non-monetary default – Unresolved violation more than 60 days from the date of servicing letter #1
- C Unresolved finding or violation
Unresolved violation less than 60 days from the date of servicing letter #1
- B Finding or violation with an approved workout plan that is “on schedule”
- A No unresolved finding or violation

2. The classification system introduces new terminology including “finding” and “violation”. It redefines others such as default, contact, and servicing letters. Understanding the following concepts are important to assure correct classification.

- A **finding** is determined when the Agency “finds” that a borrower is not operating in accordance with the loan or grant agreement, Agency regulations, or applicable local, state, or federal laws. MFIS2 allows for specific predefined findings to be entered depending on the

type of supervisory action where the Agency typically determines their occurrence. Attachment B-1 contains a preliminary list of findings by supervisory activity type. A final list will be available in MFIS2 training material. When findings are resolved, they are resolved on MFIS2 by recording an additional supervisory action.

- A **violation** is a finding that the Servicing Office escalates because of its severity, or because of the type of servicing effort that will be used to obtain compliance. When the Agency designates a finding as a violation, it indicates a willingness to pursue the finding to the point of acceleration to have it corrected. MFIS2 provides a process for the Servicing Office to elevate a finding to a violation. For example:
 - If the Servicing Office is advised by a local health department that a major failure of the project's waste water disposal system will cause the project to be declared unfit for habitation, the Servicing Office may code the project in "violation" and begin to take immediate corrective servicing actions.
 - If repeated documented efforts to correct a finding from a physical inspection, such as "broken windows and torn screens" has not resulted in the borrower taking steps to resolve the problem; the Servicing Office may escalate the finding to a violation. To implement this change in status, the Servicing Office will update MFIS2 and issue servicing letter #1 to begin the formal notification process to obtain borrower compliance.
- The term **non-monetary default** is re-defined to provide a more precise status based on Agency servicing efforts. MFIS2 will consider a project to be in non-monetary default 60 days after the issuance of servicing letter #1 and the borrower has not responded in a way to resolve the violation, either directly or through a workout plan.
- Projects with **monetary defaults** will be provided from AMAS and are defined as those projects delinquent for more than 60 days. A monetary violation includes projects that have been accelerated and borrowers who are in bankruptcy.
- A servicing **contact** can mean a letter, document, visit, meeting, or phone call where servicing information is exchanged with the borrower.
- **Servicing letters #1, 2 and 3** are the serious servicing letters currently found as attachments to AN 3511 (1930-C). Servicing letters have an impact on classification and should be used only in conjunction with an effort to resolve a violation. When servicing letters are used, they must also be entered on MFIS2.

The new classification system allows the Agency to focus on those projects which servicing offices consider truly at risk. The following is a brief description of how the Agency will view the classification of the portfolio:

- “Class D” projects are in default and may be taken into inventory, be lost to the program, or cause the displacement of tenants. Defaults can be monetary or non-monetary. Non-monetary defaults are those projects where a Servicing Office has notified the borrower of a violation using the servicing letter process of AN 3511 (1930-C), and the borrower has not addressed the violation to the satisfaction of the Servicing Office within 60 days of the first servicing letter. Agency reviewers in the Servicing, State or National Office will be alerted that the project is in jeopardy and should be available to provide further servicing assistance.
- “Class C” projects are projects with identified findings or violations. They include projects with violations where servicing letter #1 has been issued, but 60 days from the date of the servicing letter has not passed without a resolution. It is important to note that while the presence of a finding or violation is a normal occurrence in portfolio management, Agency reviewers will be concerned when findings and violations are carried for an extended period of time with no indication of Servicing Office resolution efforts. Projects under this status for an extended period of time will alert Agency reviewers to one or more of the following:
 - There may be workload or staffing issues related to resolving problems;
 - Findings may need to be elevated to a violation status to facilitate effective servicing;
 - Assistance from the State or National Office may be necessary to address the problem.
- “Class B” indicates that servicing steps have been taken and the borrower is cooperating to resolve identified findings or violations with the use of a workout plan.
- “Class A” projects have no unresolved findings or violations.

3. MFIS2 provides all administrative levels of the Agency with access to the servicing history of each MFH project. Rather than simply counting the number of “D’s,” program managers and reviewers may now focus on the servicing efforts being taken to resolve clearly identified findings and violations. The National, State and Servicing Office will have the capability to generate, view, and print the classification reports as needed.

Loans may be reclassified on MFIS2 as findings and violations are determined. The Project Classification window (PB1104) is used to view or process classification information and displays the classification history of the project. The current function that classifies all projects on a particular 3B2 will be eliminated. This function will be replaced by regular batch classifications completed by St. Louis staff on all projects located on the server.

Procedural Reference:

RD Instruction 1965-B, paragraph 1965.58 (a) (5) requires the management card system per RD Instruction 1905-A to assure compliance by borrowers with RD requirements. An unnumbered letter from the Acting Administrator for Rural Housing and Community Development Service dated March 20, 1995, implemented the Multi-Family Integrated System (MFIS) to replace the management system card (Form RD 1905-6). MFIS is an automated version of the management system card and has evolved into an integrated, relational database. The implementation of MFIS2 classification will be as described in this AN.

Implementation Directions:

The new classification system will be activated and the current MFIS data will be converted in the same order that states are trained. Therefore, the current monthly classification manual reporting requirements will be eliminated as each office's personnel are trained and the data is converted to MFIS2.

It is the responsibility of each Rural Development Program Manager to assure that their Servicing Office correctly uses MFIS2 to properly and accurately classify MFH projects. State Directors are responsible to assure that MFIS2 classification accurately reflects the servicing status of their jurisdiction.

Attachment B-1

Listing of Supervisory Activities

This Appendix includes a listing of supervisory inspections and reviews, servicing actions and requests, and independent findings as used in MFIS2.

Activity Type	Code	Activity Name	Batch Process Performed	Tracking Item	Findings
Supervisory Inspection	I	COMPLIANCE REVIEW	3 years from due date	1 DUE 2 COMPLETED 3 FOLLOW-UP	Non-compliance
		CONSTRUCTION INSPECTION		1 DUE 2 COMPLETED 3 FOLLOW-UP	
		FINAL CONSTRUCTION INSPECTION		1 DUE 2 COMPLETED 3 FOLLOW-UP	
		PHYSICAL INSPECTION – ANNUAL	1 year from due date	1 DUE 2 COMPLETED 3 FOLLOWUP	1 Utilities 2 Drainage and erosion control 3 Landscaping and grounds 4 Drives, parking surfaces, and walks 5 Exterior signage 6 Fences and retaining walls 7 Debris and graffiti 8 Lighting 9 Foundation 10 Exterior walls and siding 11 Roofs, flashing and gutters 12 Windows, doors, and exterior structures 13 Common area accessibility 14 Common area signag
		PHYSICAL INSPECTION – TRIENNIAL	3 years from due date	1 DUE 2 COMPLETED 3 FOLLOW-UP	1 Flooring 2 Walls, floors, and ceiling 3 Doors and windows 4 Electrical, AC, and

					heating 5 Water heaters 6 Smoke alarms 7 Emergency call system 8 Insect/vermin infestation 9 Range and hod 10 Refrigerator 11 Sinks 12 Cabinets 13 Water closet 14 Bathtub and shower stall Also See Physical Inspection Annual
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Activity Type	Code	Activity Name	Batch Process Performed	Tracking Item	Findings
Supervisory Inspection (Cont.)	I	OTHER		1 DUE 2 COMPLETED 3 FOLLOW-UP	All exclusive
		POST-OCCUPANCY REVIEW		1 DUE 2 COMPLETED 3 FOLLOW-UP	See Supervisory Visit
		SITE VISIT (GENERAL)		1 DUE 2 COMPLETED 3 FOLLOW-UP	All inclusive
		SUPERVISORY VISIT	3 years from due date	1 DUE 2 COMPLETED 3 FOLLOW-UP	1 IOI 2 Staffing 3 Marketing 4 Eligibility and income 5 Leasing 6 Rents and charges 7 Rent changes 8 Maintenance 9 Supplemental services 10 Accounting 11 Energy conservation 12 Tenant participation 13 Mgt. Training 14 Terminations 15 Mgt. Agreement and pla 16 Mgt. Compensation 17 On-site mgt.
		WARRANTY INSPECTION		1 DUE 2 COMPLETED 3 FOLLOW-UP	

Activity Type	Code	Activity Name	Batch Process Performed	Tracking Item	Findings
Supervisory Review	R	1930-7 (ACTUAL)	1 year from due date	1 DUE 2 RECEIVED 3 APPPROVED 4 FOLLOW-UP	1 Not received 2 Taxes unpaid 3 Insurance unpaid 4 Unauthorized use of func 5 Unauthorized RTO 6 Under-funded security deposits 7 Delinquent reserve 8 Unauthorized project det 9 Unacceptable
		1930-7 (PROPOSED)	1 year from due date	1 DUE 2 RECEIVED 3 APPPROVED 4 FOLLOW-UP	1 Not received 2 Unacceptable
		AFHMP		1 DUE 2 RECEIVED 3 APPPROVED 4 REJECTED 5 FOLLOW-UP	1 Not received 2 Unacceptable
		ANNUAL MEETING NOTES	1 year from due date	1 DUE 2 RECEIVED 3 REVIEWED 4 FOLLOW-UP	
		AUDIT	1 year from due date	1 DUE 2 RECEIVED 3 REVIEWED 4 FOLLOW-UP	Qualified Opinion Also See 1930-7 (Actual)
		BALANCE SHEET	1 year from due date	1 DUE 2 RECEIVED 3 REVIEWED 4 FOLLOW-UP	See 1930-7 (Actual)
		CONTACT #1		1 CONTACT 2 DUE 3 RECEIVED 4 FOLLOW-UP	All inclusive
		CONTACT #2		1 CONTACT 2 DUE 3 RECEIVED 4 FOLLOW-UP	All inclusive
		CONTACT #3		1 CONTACT 2 DUE 3 RECEIVED	All inclusive

				4 FOLLOW-UP	
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Activity Type	Code	Activity Name	Batch Process Performed	Tracking Item	Findings
Supervisory Review (Cont.)	R	ENERGY AUDIT		1 DUE 2 RECEIVED 3 REVIEWED 4 FOLLOW-UP	
		FINANCING STATEMENT		1 DUE 2 RECEIVED 3 FOLLOW-UP	Not received
		INSURANCE – BLANKET		1 DUE 2 RECEIVED 3 FOLLOW-UP	1 Inadequate coverage 2 Not received 3 Unpaid premium
		INSURANCE – LIABILITY		1 DUE 2 RECEIVED 3 FOLLOW-UP	1 Inadequate coverage 2 Not received 3 Unpaid premium
		INSURANCE – OTHER COVERAGE		1 DUE 2 RECEIVED 3 FOLLOW-UP	1 Inadequate coverage 2 Not received 3 Unpaid premium
		INSURANCE – PROPERTY		1 DUE 2 RECEIVED 3 FOLLOW-UP	1 Inadequate coverage 2 Not received 3 Unpaid premium
		INSURANCE – WORKMAN'S COMPENSATION		1 DUE 2 RECEIVED 3 FOLLOW-UP	1 Not received 2 Unpaid premium
		IOI DISCLOSURE		1 DUE 2 RECEIVED 3 APPROVED 4 FOLLOW-UP	1 Not received 2 Unacceptable
		LEASE		1 DUE 2 RECEIVED 3 APPROVED 4 FOLLOW-UP	1 Not received 2 Unacceptable
		MANAGEMENT AGREEMENT		1 DUE 2 RECEIVED 3 APPROVED 4 FOLLOW-UP	1 Not received 2 Unacceptable
		MANAGEMENT PLAN		1 DUE 2 RECEIVED 3 APPROVED 4 FOLLOW-UP	1 Not received 2 Unacceptable

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Activity Type	Code	Activity Name	Batch Process Performed	Tracking Item	Findings
Supervisory Review (Cont.)	R	MONTHLY BUDGET		1 DUE 2 RECEIVED 3 APPROVED 4 FOLLOW-UP	See 1930-7 (Actual)
		OCCUPANCY RULES		1 DUE 2 RECEIVED 3 APPROVED 4 FOLLOW-UP	1 Not received 2 Unacceptable
		OTHER		1 DUE 2 RECEIVED 3 APPROVED 4 FOLLOW-UP	All inclusive
		QUARTERLY BUDGET		1 DUE 2 RECEIVED 3 APPROVED 4 FOLLOW-UP	See 1930-7 (Actual)
		SUBSTANTIAL COMPLETION		1 DUE 2 RECEIVED 3 REVIEWED 4 FOLLOW-UP	Not received
		TAX RECEIPT		1 DUE 2 RECEIVED 3 FOLLOW-UP	1 Not received 2 Taxes unpaid
		UTILITY ALLOWANCE		1 DUE 2 RECEIVED 3 APPROVED 4 FOLLOW-UP	1 Not received 2 Unacceptable

Activity Type	Code	Activity Name	Tracking Item
Servicing Action	A	SERVICING LETTER #1	1 SENT 2 DUE 3 RECEIVED 4 FOLLOW-UP
		SERVICING LETTER #2	1 SENT 2 DUE 3 RECEIVED 4 FOLLOW-UP
		SERVICING LETTER #3	1 SENT 2 DUE 3 RECEIVED 4 FOLLOW-UP
		CHANGE MANAGEMENT AGENT	1 REQUESTED 2 COMPLETED 3 FOLLOW-UP
		OTHER	1 SENT 2 DUE 3 RECEIVED 4 FOLLOW-UP
		PROBLEM CASE REPORT	1 RECOMMENDED 2 APPROVED 3 RESOLVED 4 FOLLOW-UP
		ACCELERATION LETTER	1 SENT 2 DUE 3 APPEAL 4 MEDIATION 5 MEETING 6 RESOLVED
		FORECLOSURE	1 EFFECTIVE 2 MARSHALL SALE 3 FOLLOW-UP
		REAL ESTATE OWNED (REO)	1 ACQUIRED 2 SOLD 3 FOLLOW-UP
		COLLECT UNAUTHORIZED ASSIST.	1 IDENTIFIED 2 PAID 3 FOLLOW-UP
		OIG AUDIT/INVESTIGATION	1 INITIATED 2 COMPLETED 3 FOLLOW-UP

		RECEIVERSHIP	1 INITIATED 2 COMPLETED 3 FOLLOW-UP
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Activity Type	Code	Activity Name	Tracking Item
Servicing Request (Cont.)	Q	BANKRUPTCY	1 FILED 2 DISCHARGED 3 FOLLOW-UP
		CHANGE PROJECT DESIGNATION	1 REQUEST 2 APPROVED 3 DENIED 4 FOLLOW-UP
		DEBT SETTLEMENT	1 REQUEST 2 APPROVED 3 DENIED 4 FOLLOW-UP
		DEFERRAL OF PAYMENTS	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP
		JUNIOR LIENS	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP
		LATE FEE WAIVER	1 REQUEST 2 APPROVED 3 DENIED 4 FOLLOW-UP
		LOAN CONSOLIDATION	1 REQUEST 2 APPROVED 3 DENIED 4 EFFECTIVE 5 FOLLOW-UP
		LOAN REAMORTIZATION	1 REQUEST 2 APPROVED 3 DENIED 4 EFFECTIVE 5 FOLLOW-UP
		LOPE	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP
		OCCUPANCY WAIVERS	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP

Activity Type	Code	Activity Name	Tracking Item
Servicing Request (Cont.)	Q	OTHER	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP
		PREPAYMENT	1 REQUEST 2 APPROVED 3 DENIED 4 EFFECTIVE 5 FOLLOW-UP
		PROJECT CONSOLIDATION	1 REQUEST 2 APPROVED 3 DENIED 4 EFFECTIVE 5 FOLLOW-UP
		RENTAL INCENTIVES	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP
		REQUEST FOR 2% WITHDRAWAL	1 REQUEST 2 APPROVED 3 DENIED 4 FOLLOW-UP
		SERVICING RA REQUEST	1 REQUEST 2 APPROVED 3 DENIED 4 FOLLOW-UP
		SPECIAL NOTE RENT	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP
		SUBORDINATION	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP
		SUBSTITUTION OF PARTNERS/MEMBERS	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP
		TENANT GRIEVANCE	1 REQUEST 2 COMPLETED 3 FOLLOW-UP

Activity Type	Code	Activity Name	Tracking Item
Servicing Request (Cont.)	Q	TRANSFER OF OWNERSHIP	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP
		VOLUNTARY CONVEYANCE	1 REQUEST 2 APPROVED 3 FOLLOW-UP
		WORKOUT PLAN	1 REQUEST 2 APPROVED 3 DENIED 4 COMPLETED 5 FOLLOW-UP

INDEPENDENT FINDINGS

Activity Type	Findings
Independent Findings	DELINQUENT RESERVE ACCOUNT
	NON-DISCLOSURE OF IOI
	UNAUTHORIZED DEBT
	UNAUTHORIZED SUBSTITUTION OF GENERAL PARTNER
	UNAUTHORIZED TRANSFER OF OWNERSHIP
	UNRESOLVED CONTRACTUAL DISPUTE

Changes to Supervisory Visit Requirements

The program changes to the supervisory visit requirements are:

1. Servicing Offices will now conduct an annual “walk-about” physical inspection.
2. The attached new RHS MFH Physical Inspection Report will now be used to record the results of the physical inspections performed by the Agency.

Discussion:

1. **Annual “walk-about” Physical Inspection.** The annual physical inspection is an informal site review also known as a “walk-about”. Its purpose is to quickly determine if the project is in compliance with the Agency’s physical building standards. It is not to inspect for full compliance with all applicable maintenance standards, but to identify any potentially serious problems that may require immediate attention.

Physical inspections should be completed at least 90 days prior to the end of the borrower’s fiscal year. This will provide basic information that can be helpful in reviewing the borrower’s budget request for the coming year. Before visiting the site, a review of the borrower’s case file, previous physical reviews, most recent physical inspection report, tenant complaints (if applicable) and MFIS should be made to determine if there may be any particular issues with the project’s physical condition.

It is estimated this review will take approximately 15-30 minutes depending on the number of units in the project and the condition. The inspection will be conducted using the exterior side of the summary page of the RHS MFH Physical Inspection Report, provided that the worksheet for exterior standards is used to document “findings”. Based on the inspector’s findings, a full physical inspection may be necessary at this time or scheduled for the near future. The results of the walk-about inspection will be entered into MFIS2.

2. **RHS MFH Physical Inspection Report.** The Agency is required to monitor the physical condition of each project it finances in order to ensure that the property maintains its value, tenants have housing that is decent, safe and sanitary, and environmental and civil rights requirements are maintained. The RHS MFH Physical Inspection Report has been developed by Agency staff to assure that a consistent and objective assessment of a project's physical status is implemented program-wide. The form incorporates “performance standards” to describe the physical condition a project should achieve. Data from the RHS MFH Physical Inspection Report documenting a project’s failure to meet performance standards will be entered into MFIS2 and used in monitoring project operations and in the classification process.

The RHS MFH Physical Inspection Report consists of three sections. The first section is the summary sheet that records pertinent project information as well as the summary findings from the exterior and interior physical standards worksheets. The second section records the results of the review of compliance with the exterior physical standards and the third section records the results of the review of compliance with interior physical standards. There are 14 categories of physical standards with sub-items on each worksheet identified for review.

Directions for completing the worksheets are at the beginning of each section. The new form requires the reviewer to make the determination of what previously would be noted as a deficiency or weakness, but now is to be reported as a “finding” or “violation”.

A “finding” is a failure to meet physical standard that should be corrected through routine procedures. A “violation” is a finding that is elevated either by its severity or the Agency’s inability to obtain a resolution from routine servicing methods.

If a “finding” or “violation” is identified in any sub-item of the 14 categories of physical standards, the Servicing Office will determine if the overall rating of that category should be coded a “finding” or “violation”. A category level violation should be only recorded if the Servicing Office intends to pursue the problem through the use of the 3 servicing letters found as attachments to AN 3511 (1930-C). Elevating a finding to a violation will have an impact on the classification of a project. See Attachment B for a more thorough discussion of the MFIS2 classification process.

All three sections of the RHS MFH Physical Inspection Report will be completed for the triennial inspection. The worksheets for exterior and interior physical standards should be completed first. The summary page should be completed last to record the results of the physical inspection in preparation for entry into MFIS2. All findings must be documented on the inspection worksheets and must correspond to the available physical standards described. Experienced staff may report the results of the physical inspection using the summary page only, provided that any finding is also documented on the exterior or interior worksheets.

While the physical inspection form will be modified at this time, the Agency hopes to complete further revisions to the management and occupancy portion of the supervisory visit soon. The changes will incorporate revisions suggested by Agency staff and stakeholders. You will be notified of these changes in the future.

Procedural Reference:

1. RD Instruction 1930-C, paragraph 1930.119 (a) provides for visits to MFH project sites as necessary to accomplish the objectives of the loan or grant. To assure that the physical status of the portfolio is properly monitored, an annual physical inspection is now to be conducted except as provided for below in the implementation directions.

2. RD Instruction 1930-C, paragraph 1930.119(b)(2)(ii) provides for using an alternative to the HUD Form 9822. To assure consistency in the assessment of the MFH portfolios physical status, the physical inspection segment of the triennial inspection will now be recorded on the RHS MFH Physical Inspection Report to be issued under a separate procedure notice. A draft copy of the form is attached. An automated “fillable” version of the form will be made available to Agency staff on the Agency’s “intranet” web page.

Implementation Directions:

1. With the implementation of this AN and issuance of the form, Servicing Offices are to conduct an annual “walk-about” physical inspection. Once every three years, usually in conjunction with a full supervisory visit, a complete physical inspection will be conducted using both the interior and exterior physical inspection worksheets. When a complete physical inspection is not to be performed, the Servicing Office will complete a short “walk-about” inspection using the exterior inspection worksheet only.

If the Servicing Office completes a physical inspection and has no findings regarding the physical status of a project, the following annual walk-about may be omitted. However, each project must receive either a walk-about inspection or full physical inspection at least once every two years.

2. Effective with the publication of AN, the new RHS MFH Physical Inspection Report will be used to record the results of the physical inspections conducted by the Agency. Results of all physical inspections will be entered into MFIS2.

RHS MFH PHYSICAL INSPECTION REPORT NOT AUTOMATED.

Changes to the Project Budget Approval Process

Program Changes:

1. When the Agency reviews a proposed project budget submitted by a borrower on Form RD 1930-7, the Servicing Office will enter the proposed budget on MFIS2 and use the analysis information provided by MFIS2 in the budget approval review.
2. Borrowers will not submit and the Agency will not review current year “actuals” at the time of the proposed budget review.
3. Revised Form RD 1930-7 will include an annual capital budget. Revised Form RD 1930-7 will be issued under a separate Procedure Notice.

Discussion:

1. MFIS2 provides a powerful process to prepare information for the Agency’s review and analysis of proposed project budgets. The results of this process are available on-line or through a system generated report. Once converted to MFIS2, Servicing Offices must use the MFIS2 analysis information to review project budgets. The MFIS2 analysis process should be the primary mechanism for budget review. Additional information may be considered when the Servicing Office deems that it is relevant to protect the financial integrity of the MFH project. Budget approval decisions will be based on the consideration of the MFIS2 analysis information and any additional relevant issues. Attachment D-1 documents the information MFIS2 prepares for analysis.
2. MFIS2 will compare the proposed budget with the preceding year’s approved budget for the project and a series of budget norms designed to determine the comparability of the proposed budget’s figures. Attachment D-2 discusses these norms in depth. Borrowers will now only be required to submit actual budget figures with the audit or MFH Borrower Balance Sheet, Form RD 1930-8, after the end of the borrower’s fiscal year.
3. Borrowers will submit their proposed use of funds for capital items with the proposed budget on Form RD 1930-7. These figures will be used to anticipate reserve account usage prior to the start of the borrower’s fiscal year. Capital items on an approved proposed budget do not constitute an approval of reserve account use. Requests for the use of reserve account funds must be approved as a separate action in accordance with current RD Instruction 1930-C, Exhibit B, Paragraph XIII B 2 c. Borrowers will submit actual expenditures for capital items with the audit or MFH Borrower Balance Sheet, Form RD 1930-8, after the end of the borrowers’ fiscal year.

Procedural Reference:

1. RD Instruction 1930-C, Exhibit C, V A 1 requires the Agency to review all budget material submitted by the borrower. Beginning with the FY 2001 project budget approvals, the Agency will perform the review in using the guidance provided in this AN.
2. RD Instruction 1930-C, Section 1930.122 (b) (1) (ii) requires the annual project budget to be prepared in accordance with the instructions of Form RD 1930-7. The instructions of the revised Form RD 1930-7 no longer require that the “actual” column be completed at the time a proposed budget is being prepared.
3. Form RD 1930-7 is revised to include a new Part VI for “Capital Budgeting” Part VI is to be completed in accordance with the form’s Instructions.

Implementation Directions:

1. The Servicing Office will enter the proposed budget submitted by the borrower on Form RD 1930-7 into MFIS2. The MFIS2 analysis information will provide the Servicing Office with the difference between the current proposed budget and the previous proposed budget, and the difference between the current proposed budget and system generated norms that match the profile of the project being studied. The Servicing Office will use these results as a primary source of information for their review of the borrower’s proposed budget.
2. The Servicing Office will use the proposed budget approval process to assure that the borrower is properly planning to address project needs and operate using reasonable and comparable expenses. The Agency’s review of actual budget information for compliance related issues will be performed when audited or reviewed actual budgets are submitted after the end of the borrower’s fiscal year.
3. An annual capital budget will now be completed and submitted by borrowers. It will be reviewed and approved by the Agency as part of Form RD 1930-7.

MFIS2 Analysis Items for Proposed Budgets

1. MFIS2 will perform the following analysis for each proposed budget:

- Is there more than a 10% difference between the proposed and previous budget?

From Part I

- Cash Sources
- Cash Uses
- Net Cash
- Unrestricted Cash

From Part II

- Subtotal M&O
- Subtotal Utilities
- Subtotal Administrative
- Subtotal Taxes and Insurance
- Total O&M

From Part III

- Transfer from Reserve

Further Analysis

- Positive Cash Flow
- Correct Reserve Deposit
- Part III Capital Use matches Part I
- First Year of Operation
- 2% Money properly deposited

- Is there more than a 10% difference between the proposed budget and 4 different sets of MFIS2 norms, on the following items? Norm 1 (narrow by state), norm 2 (narrow by region), norm 3 (broad based by state), and norm 4 (broad based by region).

From Part I

- Cash Sources
- Cash Uses
- Net Cash
- Unrestricted Cash

From Part II

- Subtotal M&O
- Subtotal Utilities
- Subtotal Administrative
- Subtotal Taxes and Insurance
- Total O&M

From Part III

- Transfer from Reserve

2. On MFIS2 screens the on-line analysis for proposed budgets will appear as follows:

Cash Sources -	prpsd to prvs 10% dif	(Failed or Passed will be indicated)
Cash Uses -	prpsd to prvs 10% dif	
Net Cash-	prpsd to prvs 10% dif	
Unrstd Cash-	prpsd to prvs 10% dif	
Subttl M&O-	prpsd to prvs 10% dif	
Subttl Util-	prpsd to prvs 10% dif	
Subttl Admn-	prpsd to prvs 10% dif	
Subttl T&I-	prpsd to prvs 10% dif	
Total O&M-	prpsd to prvs 10% dif	
Trans frm resrv -	prpsd to prvs 10% dif	
Positive Cash flow		
Correct reserve deposit		
Part III Capital Use matches Part I		
First Year of Operation		
2% Money properly deposited		
Cash Sources -	prpsd to nrm1 10% dif	
Cash Uses -	prpsd to nrm1 10% dif	
Net Cash-	prpsd to nrm1 10% dif	
Unrstd Cash-	prpsd to nrm1 10% dif	
Subttl M&O-	prpsd to nrm1 10% dif	
Subttl Util-	prpsd to nrm1 10% dif	
Subttl Admn-	prpsd to nrm1 10% dif	
Subttl T&I-	prpsd to nrm1 10% dif	
Total O&M-	prpsd to nrm1 10% dif	
Trans frm resrv -	prpsd to nrm1 10% dif	
Cash Sources -	prpsd to nrm2 10% dif	
Cash Uses -	prpsd to nrm2 10% dif	
Net Cash-	prpsd to nrm2 10% dif	
Unrstd Cash-	prpsd to nrm2 10% dif	
Subttl M&O-	prpsd to nrm2 10% dif	
Subttl Util-	prpsd to nrm2 10% dif	
Subttl Admn-	prpsd to nrm2 10% dif	
Subttl T&I-	prpsd to nrm2 10% dif	
Total O&M-	prpsd to nrm2 10% dif	
Trans frm resrv -	prpsd to nrm2 10% dif	
Cash Sources -	prpsd to nrm3 10% dif	
Cash Uses -	prpsd to nrm3 10% dif	
Net Cash-	prpsd to nrm3 10% dif	
Unrstd Cash-	prpsd to nrm3 10% dif	
Subttl M&O-	prpsd to nrm3 10% dif	
Subttl Util-	prpsd to nrm3 10% dif	
Subttl Admn-	prpsd to nrm3 10% dif	
Subttl T&I-	prpsd to nrm3 10% dif	
Total O&M-	prpsd to nrm3 10% dif	
Trans frm resrv -	prpsd to nrm3 10% dif	
Cash Sources -	prpsd to nrm4 10% dif	
Cash Uses -	prpsd to nrm4 10% dif	
Net Cash-	prpsd to nrm4 10% dif	
Unrstd Cash-	prpsd to nrm4 10% dif	
Subttl M&O-	prpsd to nrm4 10% dif	
Subttl Util-	prpsd to nrm4 10% dif	
Subttl Admn-	prpsd to nrm4 10% dif	
Subttl T&I-	prpsd to nrm4 10% dif	
Total O&M-	prpsd to nrm4 10% dif	
Trans frm resrv -	prpsd to nrm4 10% dif	

(Prpsd = Proposed) (Prvs = Previous) (Dif = Difference) (Nrm – Norm)

Budget Norm Calculation Process

Budget norms are comparative figures derived by grouping similar projects together and calculating statistics based on their previous year end actual budget figures, factored for inflation. Currently 4 categories of norms are provided by MFIS2. They are calculated based on either a state or region view, and a narrow or broad grouping of project characteristics. The state view is for projects in the same state, while the regional view is for projects in the **same geographical** region of states. The narrow view uses 7 project characteristics while the broad view uses only 3. Project groupings occur for each norm and are based on an exact match between the project being analyzed and the set of characteristics defined for the norm. The following are the MFIS2 norms:

Nrm1	Narrow based (7 project) characteristics by state
Nrm2	Narrow based (7 project) characteristics by region
Nrm3	Broad based (3 project) characteristics by state
Nrm4	Broad based (3 project) characteristics by region

Characteristics

	Narrow	Broad
Elderly or Family	x	x
Project Size Category	x	x
Section 8 or not	x	x
Project Age Category	x	
Taxes Paid or not	x	
Profit or Non-Profit	x	
Utility Allowance or not	x	

- **Elderly or Family.** Based on the Project Rental Code. A code of “EL” is for “elderly” and all other codes are “family”.
- **Project Size.** There are 5 categories based on how many Revenue-Producing units are in the project. These are <4, 5-11, 12-24, 25-39, 40>.
- **Section 8 or Not.** Based on the Project Interest Credit Plan Code. A code of 7, 8, 21 or 24 means Section 8. Other codes are not.
- **Project Age.** There are 5 categories based on the age of the project in years derived from current date - Project Date of Operation. These are <5, 6-10, 11-19, 20-29, 30>.
- **Taxes Paid or Not.** Based on whether any real estate taxes (> 0) were paid according to last fiscal year’s MFIS2 approved proposed budget item part II, line 34.
- **Profit or Non-Profit.** Based on Project Profit Type Code. A code of 1 or 2 designates a profit project, all others are non-profit.
- **Utility Allowance or not.** This is based on MFIS2 Project Utility Allowance Switch. The switch is either Yes or No.

REGIONAL GROUPINGS

Region 1 -- Maine, Vermont, New Hampshire, Mass., Rhode Island, Connecticut

Region 2 -- New York, New Jersey

Region 3 -- Pennsylvania, Delaware, Maryland, Virginia, West Virginia, and DC

Region 4 -- Kentucky, Tennessee, North Carolina, South Carolina, Georgia,
Alabama, Mississippi, Florida

Region 5 -- Minnesota, Wisconsin, Michigan, Illinois, Indiana, Ohio

Region 6 -- New Mexico, Oklahoma, Arkansas, Texas, Louisiana

Region 7 -- Nebraska, Iowa, Kansas, Missouri

Region 8 -- Montana, North Dakota, South Dakota, Wyoming, Utah, Colorado

Region 9 -- California, Nevada, Arizona, Hawaii

Region 10 - Alaska, Washington, Oregon, Idaho

Changes to Reserve Account Supervision

Program Changes:

1. An amount may be entered on MFIS2 to indicate the long-term capital needs of a project as determined by a capital needs assessment.
2. All authorized withdrawals of reserve account funds will be treated the same, regardless of the purpose for the use of funds. Specifically, the Agency will not require withdrawals for operating purposes to be paid back to the reserve account prior to allowing a return to owner (RTO).
3. To assure consistency, MFIS2 terminology will now be used to describe the status of reserve accounts.

Discussion:

1. The compliance status of reserve accounts (ahead or behind schedule) is not always a good indicator of an MFH project's ability to have internally generated funds available to address long term-capital needs. A capital needs assessment is a recognized process for determining long term capital needs of physical property and developing a plan to have financial resources in place to address those needs as they come due. There are several individuals and companies that provide this service nationwide. In addition, Agency staff and borrowers have prepared informal capital needs assessments when considering an increase to reserve account requirements. HUD recently required a similar review referred to as a "comprehensive" needs assessment to be performed on its portfolio. Results of a capital needs assessment may now be entered into MFIS2.
2. MFIS2 will consider all Agency approved withdrawals as "authorized" without restrictions for repayment prior to authorizing a return to owner (RTO). This policy change is implemented to reduce over-regulation of borrower operations. Projects required to use reserve funds for operating expenses have a cash flow problem and the issue of receiving a RTO should not be relevant. Agency policy has been and continues to be that reserve funds may be used for operating expenses only under extreme or unusual conditions. It is important to note that Form RD 1930-7 now includes a "part" devoted to budgeting for capital needs to assure that the borrower has a responsible plan. The use of reserve funds to pay an RTO continues to be an authorized use of reserve funds. However, when determining the required balance amount on MFIS2, an RTO withdrawal amount will not be included in the calculation.
3. To clarify reserve account terminology, MFIS2 uses the following terminology:

- ***Fully funded amount*** – The amount at which point the reserve account will be considered complete per the loan agreement.
- ***Annual deposit amount*** – The amount of funds, which must be deposited on an annual basis to the reserve account, per the loan agreement.
- ***Capital need amount*** – Total amount to address capital needs by the date entered; per a capital needs assessment.
- ***Account balance amount*** – The MFIS2 account balance as of the date displayed.
- ***Required balance amount*** – The amount that the reserve account contains at the point in time closest to the date associated with the account balance amount. This represents the total deposits minus authorized withdrawals.
- ***Total authorization amount*** – Total amount of funds authorized to be withdrawn from the reserve account.
- ***Total withdrawal amount*** – Total amount of funds withdrawn from the reserve account. This field should never be greater than the total authorization field.
- ***Total budget withdrawal amounts*** – Total amount of funds defined within the budget that is expected to be withdrawn from the reserve account.

Procedural Reference:

1. RD Instruction 1930-C, Exhibit B, Paragraph X. establishes a borrower's responsibility to assure that proper maintenance is performed and planned. Capital needs assessments may be a means for determining future maintenance needs and an allowable project expense.
2. RD Instruction 1930-C, Exhibit B-9, is an optional reserve account withdrawal approval letter for use by the Agency.
3. MFIS2 terminology is consistent with reserve account guidance found within RD Instruction 1930-C, Exhibit B, Paragraph XIII B 2 c.

Implementation Directions:

1. Borrowers are encouraged to obtain a capital needs assessments to determine the actual level a project's reserve account should reach to meet the project's individual needs. Once determined, loan agreements should be appropriately modified to reflect a new fully funded level. The Servicing Office is to enter the results of any capital needs assessments performed for a MFH project into MFIS2. The "fully funded" amount and the fully funded date are to be entered.
2. With the issuance of this AN, the Agency should no longer use the middle paragraph of Exhibit B-9 when approving withdrawals from the reserve account for operating purposes. When entering the authorization amount for RTO withdrawals on MFIS2, the Servicing Office will enter zero in accordance with MFIS2 training guidance.

3. MFIS2 terminology will be used to describe reserve account status. Terminology described in this AN is also available in the MFIS2 users guide.

Changes to the Review of Project “Actuals”

Program Changes:

When the Agency reviews actual budget figures (actuals) submitted by a borrower on Form RD 1930-7 with year-end financial information, the Servicing Officer will enter the actuals on MFIS2 and use the analysis information provided by MFIS2 in their review of borrower compliance with program regulations.

Discussion:

MFIS2 uses a powerful process to prepare information for the Agency’s review and analysis of project budgets with actual figures. The results of this process are available on-line or through a system generated report. Servicing Offices must use the MFIS2 analysis information to review actual budgets once converted to MFIS2. The MFIS2 analysis process should be the primary mechanism for budget review; however additional information may be considered **when the** Servicing Office deems that it is relevant to protect the financial integrity of the MFH project. Budget compliance decisions, which may result in findings or violations, will be based on the MFIS2 analysis information and any additional relevant issues. Attachment F-1 documents the information MFIS2 prepares for analysis.

Procedural Reference:

RD Instruction 1930-C, Section 1930.122 (b) (4) (iv) requires the Agency to review all financial material submitted by the borrower with the annual audit reports or verifications of reviews. Beginning with the FY 2000 submittals, the Agency will perform the review of the actual budget figures provided on Form RD 1930-7 using the guidance provided in this AN.

Implementation Directions:

The Servicing Officer will enter the actual budget submitted Form RD 1930-7 into MFIS2. The MFIS2 analysis information will provide the Servicing Officer with the difference between the actual budget and the proposed budget as well as the difference between the actual budget and system generated norms that match the profile of the project being studied. The Servicing Officer will use these results as a primary source of information for review of the borrower’s actual budget.

MFIS2 Analysis Items for Annual and Year-To-Date Actual Budgets

1. MFIS2 will perform the following analysis for each actual budget and year-to-date actual budget received from the borrower:

- Is there more than a 10% difference between the actual and the proposed budget?

From Part I

Cash Sources

Cash Uses

Net Cash

Unrestricted Cash

From Part II

Subtotal M&O

Subtotal Utilities

Subtotal Administrative

Subtotal Taxes and Insurance

Total O&M

From Part III

Transfer from Reserve

Further Analysis

Positive Cash Flow

Correct Reserve Deposit

Part III Capital Use matches Part I

First Year of Operation

2% Money properly deposited

2. The on-line analysis for year-end actual and year-to-date actual budgets will appear on MFIS2 screens as follows:

Cash Sources

Cash Uses

Net Cash

Unrestricted Cash

Subtotal M&O

Subtotal Utilities

Subtotal Administrative

Subtotal Taxes and Insurance

Total O&M

Transfer to reserve

Transfer from reserve

Positive Cash flow

Correct reserve deposit

Part III Capital Use matches Part I
First Year of Operation
2% Money properly deposited